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[FINANCING HIGHER EDUCATION]

Challenges and Opportunities

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1 Introduction

Higher education is one of the main engines for achieving economic growth and national development. As a result, throughout the world a special attention is provided to reform the higher education system in order to increase the number of graduates and field of studies; to facilitate the finances; to achieve the harmonization of academic degrees with labour market requirements; and to increase the quality and accountability of the system. Albanian policymakers have already recognized the urgent need for the country to progress towards meeting these goals and this has been the main incentive of the reforms conducted recently in the higher education system in Albania. Meanwhile, the existing problems still exist.

Higher education remains priority topics of the public agenda but only in recent years, some reforms have been implemented which had aimed at increasing number of student enrolled in universities. While beyond these discussions little has been done during these years to improve the quality offered by the higher education system.

Recently, the Albanian government has dedicated to undertake a reform of financing higher education system. Recognizing the necessity of reforming the system and the positive impact that the adaptation of a well-designed policy will have, Agenda Institute contributes to these discussions by proposing an alternative mechanism to finance the higher education system that aims to address the main challenges that this system faces today in Albania

2 Preconditions for reforming the Higher Education System

In order to conduct a substantial and successful reform of the higher education system, three prerequisites have to be realized. These three prerequisites are: 1. Accreditation of higher education system; 2. the government's commitment for the development of vocational higher education; 3. Broad political and public consensus to ensure reform's sustainability.

2.1 Accreditation and ranking of higher education institutions

Accreditation and ranking of Higher Education Institutions (HEI) is a key prerequisite for any reform that would aim to increase quality, efficiency and effectiveness of the education system.

Global trend of devolution of higher education institutions must necessarily be added with the improvement of the information of beneficiaries of this system on quality and comparability of service provided as well as of the labour market.

Any reform, that will base the funding model on the results and outputs of Higher Education Institutions, would be impossible to apply or assess if HEI-s are not accredited and ranked.

Presence of Private Higher Education Institutions in the market creates an obligation for the government to accredit and rank universities as a mean for informing potential beneficiaries.

2.2 The government's commitment for the development of vocational higher education

The government's commitment to develop higher vocational education at the undergraduate level is one way how to reduce the pressure produced by the higher demand for enrolling in universities over these institutions in the country. In many developed countries, these institutions absorb a significant high portion of third level students (undergraduate level) and they help the countries to meet the objective needs for modern economic development

This policy would significantly increase the chances for finding a job for those young people who would follow this kind of higher education. Given the economy situation of Albania, the existence of a strong sector of vocational higher education will produce positive outcomes for all the economic sectors.

2.3 A broad political and public consensus to ensure the sustainability of reform

In general the reform in the education system and particularly the financing mechanism of higher education would be successful only if they enjoy broad public and political support, to thereby ensure its sustainability in long run.

A time period that typically exceeds several parliamentary elections, it is required in order for such a policy to produce results and for those results be assessed. Therefore, the sustainability of this reform could be guaranteed by the achievement of a broad consensus among the public

opinion and all the major political parties, and by the utilization of set of mechanisms that can be regulated based on the perspectives of different policy-makers.

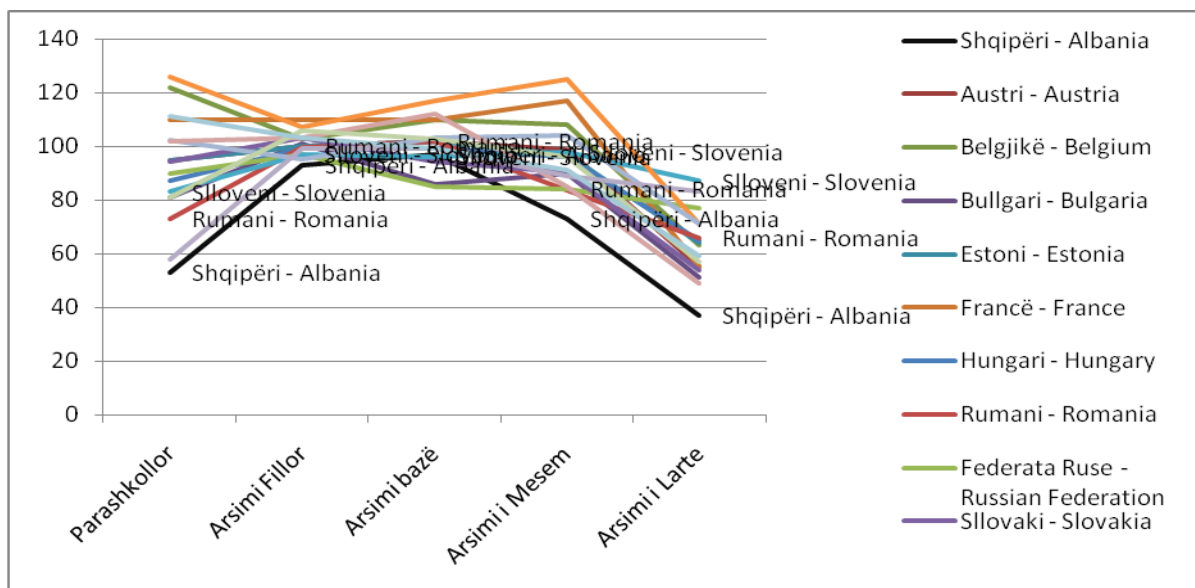
3 Main Challenges

3.1 The expansion of Higher Education System

- In the last 20 years, there has been naturally a massive increase in demand for higher education. This global trend¹ has been also experienced in Albania, as a result of opening door policy implemented after the collapsed of the communist regime and of higher rate of young population age in the country.
- Albania has suffered and continued to suffer from a very low percentage of population continuing higher education : "the gross/net enrolment rate in tertiary education was only 15/11% in 2002/3, and contrasted sharply with the 20%-30% levels in other transitional economies (Bosnia-Herzegovina 19%; Macedonia 23%; Serbia and Montenegro 24%; Romania 33% and Belarus 34%)”².Despite, in the recent years there has been an increase in the enrolment rate, this indicator is very low not only compared with developed countries, but also with the other countries of the region.

¹ Johnstone, D. Bruce, Arora, A. and Experton, W. (1998) *The Financing and Management of Higher Education: A Status Report on Worldwide Reforms*. Washington, D.C.: World Bank, Departmental Working Paper, <http://www-wds.worldbank.org>

² Hatakenaka, Sachi and Thompson, Quentin (2006) *Albania Higher Education Report* - Report submitted to the European Investment Bank



Source: INSTAT for Albania and UNESCO for the other countries

According to World Bank, "Albania has the lowest percentage of individuals who have completed secondary and higher education (48.7%) compared with the average of 62 percent of the other Balkan countries." ³

- Increased demand for social development is naturally associated with an increased demand for higher education. ⁴
- The politician has perceived the opening the door policy for higher education as a valuable electoral tool and not as a requirement for developing the country. Therefore, throughout the last 20 years there has been constantly an increase of number of students enrolled in higher education in inverse proportion to the funding increase for this system.

Table 2.3: Student Expenses as % GDP per capita						
	2004	2005	2006	2007	2008	2009
Higher Education	25.4	22.4	20.9	22.3	23.0	19.7

Source: World Bank: A Country Economic Memorandum 2010

³ World Bank (2010) – *Albania, The New Growth Agenda, A Country Economic Memorandum*

⁴ Johnstone, D. Bruce, Arora, A. and Experton, W. (1998) *The Financing and Management of Higher Education: A Status Report on Worldwide Reforms*. Washington, D.C.: World Bank, Departmental Working Paper, <http://www-wds.worldbank.org>

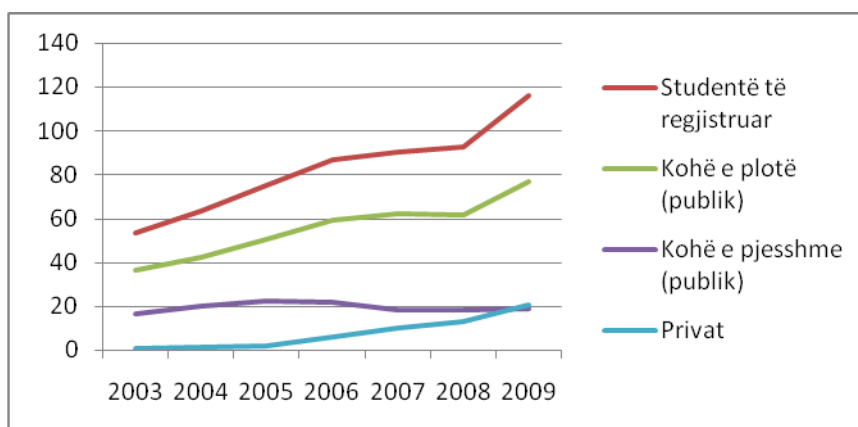
Albania spends less per student in proportion to its GDP per capita in comparison with other countries in the region or with the EU-member states.

Table 2.4: Student Expenses as % of GDP per capita in 2009

Country	%
Azerbaijan	15.6
Antigua and Barbuda	16.9
Albania	19.7
Bulgaria	24.8
Italy	25.0
Croatia	26.2
Rumania	26.2
Czech Republic	30.5
Finland	32.6
France	35.6
Moldavia	38.9

Source: World Bank -2010, available at <http://data.worldbank.org>

- Public universities not only have expanded the admission quotas in existing program, but also they have established new departments.
- The market liberalization of the higher education system for private institutions has brought a rapid growth of private institutions that today accounts 41 HEI⁵, which offer over 310 different programs⁶.



⁵ Agjencia Publike e Akreditimit të Arsimit të Lartë, Lista e Institucioneve të Licencuara, www.albranking.com

⁶ World Bank (2010) – *Albania, The New Growth Agenda, A Country Economic Memorandum*

3.2 Quality and Approach to labour market requirements.

- Nearly every report prepared on Albanian higher education system raises key issues such as low quality of higher education system. (Hatakenaka and Thompson, 2006, World Bank 2010, etc.)
- Key indicators of higher education such as the student /teacher ratio, student / space ratio, number of laboratories, number of professors with academic titles per student, quality and updating of curriculum, the existence of libraries or computer rooms, the number of students per class, etc., do not fulfil the minimum standards in Albania.
- The majority of businessmen in the country complain of a lack of specialists to meet their needs. In 2010, the Country Economic Memorandum published by the World Bank, has stated:

“In the 2008 Business Environment and Enterprise Performance Survey (BEEPS) more than half of firms reported lack of such skilled labour as an impediment for doing business and this is almost certainly an underestimate of the problem. While many firms may recognize that they need a manager, IT specialist, accountant or engineer, they may not appreciate that they are also missing opportunities to reorganize production processes, introduce new products or enter new markets (see Box 2.1 on Innovation and Growth). In addition, in the 2009 Investment Climate Survey (ICS), 51percent for large firms, 41 percent for exporters, and 48 percent for foreign-owned firms reported skills as a major obstacle. These shares were higher than in the other transition economies.”

3.3 Financial Pressure

- Albanian State spends very little for higher education, whereas the average of the EU and OECD countries is about 1% of the GDP with a perspective to increase further in upcoming years. In the case of Albania during these last 10 years, the average expenses constituted only 0.45% of the GDP which is very low even compared with other countries in the Balkan region.

Table 2.5 Public expenditure for higher education as %of GDP				
GEO/TIME	2005	2006	2007	2008
Albania	0.40	0.40	0.41	0.45
Croatia	0.76	0.88	0.81	0.95
Czech Republic	0.89	1.23	1.07	0.97
Hungary	1.03	1.04	1.03	1.02
Lithuania	1.03	1.00	1.01	1.04

Germany	1.14	1.11	1.14	1.21
Ireland	1.11	1.14	1.14	1.31
Netherlands	1.47	1.50	1.45	1.52
Denmark	2.38	2.26	2.29	2.19
Greece	1.46	:	:	:
Romania	0.81	:	1.12	:
Turkey	:	0.91	:	:
European Union (27 countries)	1.15	1.13	1.12	1.14
United States	1.31	1.43	1.25	1.26

Source: EUROSTAT

- Higher education also faces strong competition from other state services or sectors which are funded from the state budget. Decision-makers direct most of the funds into sectors or services such as infrastructure, health, agriculture, which bring visible results in the short period of time.
- Even within education system, higher education experienced financial pressure from elementary and secondary educations which are also underfunded.
- Financial pressure has brought also a further drop of the quality of teaching in public universities because the academic staffs are underpaid and there is a high competition from the private high education institutions to attract the high qualified staff.

3.4 Balancing freedom, autonomy and accountability in education

- Over the last 20 years, the administrators of public higher education have constantly demand the increase of the system autonomy. Also theories over the higher education system have showed that if universities are part of state bureaucratic administration, they will not perform effectively. In Albanian case, the dependence has not paid off, while regional and global experiences have showed that the best college and university are those with the highest autonomy.
- On the other hand, these theories stated also that the higher education institutions require to be accountable toward civil servants which protect public interest and represent state institutions.

- This perspective also point out that a group of professor may hold the higher education is in a kind of caste system making it impossible for new arrivals to enter in it.

3.5 Access and diversification of supply

- Massive opening of private universities in recent years, from one hand has certainly helped to increase access to higher education, but on the other hand has further hampered the situation in public education absorbing its best staff berceuse they can offer better financial benefits and academic conditions.
- The private universities are not seen as competitors to public ones as they have different funding models. However, this has negatively affected the public higher education depriving it's from the advantages that competition may bring to the system.
- With the opening of private universities in Albania, an alternative education opportunity was provided to those young people who came from families above average incomes. This trend, gradually, is turning the public universities as the choices of students from poor families.
- The country also continues to suffer from a high inequality of higher education's benefits by young people of rural areas compared with those from urban ones.⁷

Percentage of population with graduate degrees in%	
Urban	
Total urban population	9.86%
Average outside Tirana	7.50%
Urban part of Tirana	15.39%
Rural	
Total rural population	1.19%
Average outside Tirana	1.25%
Rural part of Tirana	1.60%

Source: Calculated by Muço, based on 2008 statistical data of INSTAT

⁷ Muco, Sagita – (2008), *Reconstructing Higher Education in Albania*

4 Challenges faced to reform the financing mechanism of higher education

- Higher education in Albania needs a drastically reform, which should not only help the system achieved some minim standards, but also facilitate the increase of human capital and promote economic development.
- Given the scarcity of natural resources as land and capital, investment should be redirected toward a resource as Labour which Albania has great quantity as result of the young age rate of Albanian citizens.
- A major problem of the Albanian higher education is that the system is severely underfunded. The level of expenditures per student is well below the level of most other countries in the region, and the system suffers from a low quality. As a result, the funding model of Higher Education should address in particular these problems:
- It crucial to increase of the public funding for the higher education, and at the same time it is important to enhance its quality. (World Bank 2010)
- The increase of funds for the higher education would create the opportunity to increase the number of students which is an essential need for the country by taking into consideration the low rate of student enrolled or graduate from universities per 1000 inhabitants, and the young average age of Albanian population.
- The funding model for higher education should promote the access of young people from low incomes families, or from rural areas as both these two groups of young people constitute a very high percentage of the population in Albania.
- At the same time, public university should not constitute the choice for only student coming from low income families or for those that only need university degree, but it should resume as an option for excellent student in order not to migrate or enrolled in private education.
- The financing mechanism of higher education should also more institutional autonomy for the universities making them truly independent and able to face both the advantages and responsibilities which autonomy brings.

- The control of state over universities should be replaced by new public management mechanisms which use as elements of the system control: results and output, rather than control through inputs.
- Governance structure and internal administration of universities should change to adapt with new public management mechanisms.
- The role of students should change from passive beneficiaries of the system into decision-makings or type of customer role.
- Public universities should be included into a competition system not only among themselves but also with the private universities in order to accelerate the implementation of reforms and to achieve that level of standards that are needed for beneficiaries.
- Higher education is obviously a public good, and as such there is need for continued investment by the state budget, but the system displays different characteristic a private good (students who complete their studies, improve their income and quality of life). As such, there should be cost-sharing between state and individual beneficiaries.
- Finally, the system should provide stability in the long term, enabling governments of different political mainstreaming to adapt its mechanisms based on their political affiliation (left or right) without having to remake the system.

5 The proposed funding model for higher education

The proposed funding model for financing the higher education in Albania is composed by the combination of three mechanisms that can be allocated over time to compensate each other based on the interests of policy-makers.

This mechanism includes the following 3 mechanisms: 1. General fund, 2. Tuition: 2.1 Scholarship 2.2 Loan, and Development fund

5.1 General Fund

The general fund is allocated on the basis of an agreement between the Ministry of Education and Higher Education Institution (HEI). This fund should be allocated under a formula

mechanism that takes into account the institution performance. This would shift the management of higher education towards a new model of public management, which is based on results and output than just on input criteria as number of students.

Potential elements to be included in the formula for the distribution of this fund would be;

☐ **The number of students registered the previous or current year**
☐ **The ranking place of the university in the previous year or the inclusion other indicators such as;**

- The total value of credits accumulated by students
- Number of graduates
- The average grade taken of students enrolled in the university from the state test.
- Number of research publications
- The evaluation of students' satisfaction in their higher education institutions.
- Graduates career
- The ratio of staff per student number
- The ratio of space per student
- Continuation of obtaining other degrees(master of PhD)in the same HEI by student (when applicable)
- Number of publication titles in the library per student
- Number of computers connected to broadband per student
- Research output involving students.

☐ **Program followed by student**, meaning specific coefficients for students who are at clinical stage or laboratory studies.

☐ **Strategic priorities set by policy-makers**, meaning specific coefficients for programs which are included as priorities subjects by policy-makers in order to achieve economic development.

The General Fund will be allocated in general amount and it will be the responsibility of the HEI's to detail this fund into the university's budget. Part of the negotiation between HEIs and the government should be also the setting of the maximum number of admissions to any university which constitute one of the main components of the formula. The number of student admitted, however, should be based not only on HEI's strategic plan but also on logistical possibilities of universities. As a result, HEI s should be free to set other admission criteria for students to enrol in universities.

This fund will constitute only a part of HEI's budget, for example 40% -50%, whereas the other part will be collected from the student's tuition fees.

5.2 Tuition

As a general rule, HEI will pay for each student. However, for a good majority of students, higher education will be free at the time of use. The government will intervene with two mechanisms for achieving this. These mechanisms are: Scholarships and loans.

5.2.1 Scholarship Fund

Every year the government can allocate a certain number of scholarships to student and the distribution of these scholarships should be done in according to following three criteria: merit, need and the program followed by the student, or a combination of these three criteria. For example:

Categories	criteria
5% of students who receive highest scores on high schools, will be provided a scholarship for the tuition fee and for living expenses during their study	Merit
Students, who achieve a certain level of grade and prove a certain level of income, will be awarded a scholarship for the tuition fee and for living expenses during their study	Merit and need.
Students, who achieve a certain level of grade (merit) and prove a certain level of income (ability), and who are chosen to study subjects that are a priority for the country development (eg physics, mathematics, geology.) will be awarded a scholarship for the tuition fee and for living expenses during their study.	Merit + need + the program followed by the student

Scholarships, however, should be a mechanism through which the state helps students to manage their studies in universities. As a result, a fair competition for gaining these scholarships should be created between public higher education institutions or between different departments.

Income from student scholarships may account for about 10% -15% of the income of public universities.

The private higher education institutions non-public institutions which receive the status of non-profit organizations may also become beneficiaries of this Scholarship Fund.

All other students enrolled in universities will be entitled to receive student loans with subsidized interest rate by the state.

5.2.2 Loan for students

All students who have acquired the right to study in universities gain the right to get a student loan through which they can cover their tuition fee and living expenses during their studies.

This can be achieved through an agreement with a number of commercial banks or the creation a company with state fund named the Student Loan Association. These loans must be guaranteed by a parent or another person during the period of study. In the absence of such opportunities for student who are orphans or disabled people, the state will become the guarantor of these individuals.

After graduation, each person starts to pay the loan at the time of his employment as a percentage added to his/her personal income tax. So de facto, loan payments are collected only when graduate is employed, and collected as a tax. Graduates continue to pay until they fully paid the up to 25 years for those graduates that have low income.

This mechanism would make higher education free for students, because the system is actually sustained by graduate' payments.

Income which is produced by the payments of tuition fees of the students who may have chosen to take advantage or no of this student loan mechanism, may account 30% -35% of the income of public universities.

This mechanism may be open also for students who choose to pursue their studies in non-public higher education institutions.

5.3 Development Fund

Development Fund will be a fund dedicated for the development of infrastructure or for setting off new programs by public higher education institutions. This fund could be obtained by public higher education institutions through projects competition and development strategy which are in line with policy priorities.

5.4 Research Fund

Research should be included in the structure of financing public higher education institution as such it should be covered by the General Fund, and research output should be a coefficient of the formula for the distribution of the General Fund. However, public funds (through a special agency for research, or the Provisional Institutions) should continue to support specific research which have great social benefit for the country. However, not only public higher education institutions but also private ones should be able to compete for these funds.

6 The funding model for financing higher education



1 APPENDIX 1 - Financing of higher education in Ireland

1.1 Overview of the system

Higher Education in Ireland is provided by universities, institutes of technology, colleges of education, and private, independent colleges. All institutions except for the private, independent colleges are autonomous and self governing, but substantially state funded.

During the last decades in Ireland, there has been a significant increase of the enrolment rate in higher education almost 2% per year since 1965; reaching 57% of students have completed a second level degree in 2006.⁸ This is one of the highest levels in the world, yet the strategic objective of Ireland is to reach 72% in 2020⁹. Entry into third level education in Ireland is based on the performance of students in the high school final exam and this makes this process very competitive. Ireland applies the tuition 'free' scheme for students who are entitled to enrol in universities. Students must meet certain criteria to be part of this scheme such as Citizenship (EU), Residence and performance.

1.2 Financing mechanism of the higher education system

State provides about 90% of the funds of higher education institutions. Even before 1995, when the students had to pay their tuition fee, state funding has never been lower than 70%¹⁰.

Institutions in Ireland receive from the state budget the following funds:

Periodical Funds: These funds are managed and distributed by the Higher Education authority. Periodical Funds include the basic grant for regular expenditure, the grant for the tuition 'free' scheme, the fund for increasing the capacity of admissions in higher education system, the requests for additional funds and other funds for various initiatives that require expenditure. Higher Education Authority does not manage and distribute funds directly to students.

⁸ Reviews of National Policies for Education: Higher Education in Ireland – ISBN 92-64-01431-4 – © OECD 2006

⁹ Higher Education Authority, National Strategy for Higher Education Ireland, <http://www.heai.ie/en/node/1303>

¹⁰ OECD 2006, Mary Kerr, HEA, Funding Systems and their Effects on Higher Education Systems – Country Study Ireland

Capital Investment Programme: are funds that Higher Education Authority allocates to institutions of higher education with the objective of capital investments and research. These funds include the establishment of new teaching, researching and students facilities ,the acquisition of property and the infrastructure development.

Access Fund: Part of general fund which is provided to universities is also the basic fund that supports the achievement of equal opportunities third level studies (equity of access).

In addition to these funds, in Ireland, there are other programs supporting for several years the achievement of strategic objectives as 'Operational Programme for Human Capital Investment 2007-2013' or 'Strategic Innovation Fund 2006-2013'¹¹.

¹¹ Higher Education Authority <http://www.hei.ie/en/funding>

2 Appendix 2 -Financing of higher education in Latvia

2.1 Introduction

The reforms of 1991 and 1995 that were associated with ongoing amendments have brought fundamental changes in the Latvian higher education. As a result of these reforms, in Latvia there was an increase of the number of universities and the number of students which was not coupled by any significant increase of state funding¹². In 2009, Latvia counted 37 Public Higher Education Institutions and 23 private. Most students are enrolled in public universities. Latvia is part of the Bologna Process and is subject to 3 cycle system which includes an academic degree (Bachelor) or professional, a master degree diploma and PhD.

2.2 Funding Public Higher Education Institutions

The funds of public universities and colleges come from:

- The annual allocation of state budget based on a formula that considers the number of students to be accepted and the list of programs provided by the institution
- Tuition fees that will be covered by state
- Additional Fund assisting science
- Funds from contractual agreement from other Ministries
- Other sources depending on the specific needs and goals of the institution

State budget allocated for higher education during the period 1995-2003 had represented a downward curve ranging between 0.9 and 0.5 of GDP. Starting from 2003, this curve has an

¹² Jan KOHOUTEK, Studies on Higher Education: Implementation of the Standards and Guidelines for Quality Assurance in Higher Education in the Central and East-European Countries, CEPES, Bucharest 2009

upward trend and in 2008, state spending on higher education amounted to 0.91% of GDP.¹³ Currently, the World Bank has suggested the government to reduce these expenses to 0.5%.

Higher Education Institutions (public and private) are exempted from taxes. They are treated as nonprofits organization and they are subject to tax relief under the law. These institutions are exempted from customs taxes including import of reconstruction materials tax¹⁴.

2.3 Autonomy of Higher Education Institutions

According to the laws for higher education in Latvia, higher education institutions are autonomous and they have the right to self-government. The autonomy is exercised through their right to choose ways and means to achieve goals set by the founders of these institutions and to comply with laws. A higher education institution has the right to: create and approve its constitution, establish its own academic staff and determine in an independent way the content of its programs, the additional requirements for admission, the direction of scientific work, the organizational structure and management, the payments for work that should not be lower than those set by the government and to perform other activities that are consistent with the legislation of the higher education.

2.4 Admission to the university and ways of covering the expenditures

Starting from 2004, all students in Latvia must enter a national exam at the end of their high school years. The grade gained from this exam will serve to pursue an undergraduate degree. However, some Higher Education Institutions may organize additional tests in specific subject in order to select the candidates for their programs such as arts, sports, etc.

The government with the suggestion of the Higher Education Council defines each academic year the number of new students whose studies will be financed from the state budget in public higher education institutions. Nevertheless, the final number of state financed study slots at public institutions are determined by the Minister of Education, according to the annual amount of government funding allocated to higher education.

¹³ **Recent developments in higher education governance in Latvia**, Anatolijs Melnis, Department of Higher Education Ministry of Education and Science, Maj 2009

http://www.lu.lv/materiali/eng/bsua/lu_administraciju_seminars.ppt

¹⁴ Ligji për Institucionet e Arsimit të Lartë – Ministria e Arsimit dhe Shkencës Letoni <http://izm.izm.gov.lv>

The other part of students who have achieved required level of scores to enter university but fail to be part of those students financed by the state can continue studies but they have to pay for the tuition fee. In the academic year 2008-2009, the percentage of students who paid their own studies was 73% while the state only covered expenses by 27%¹⁵.

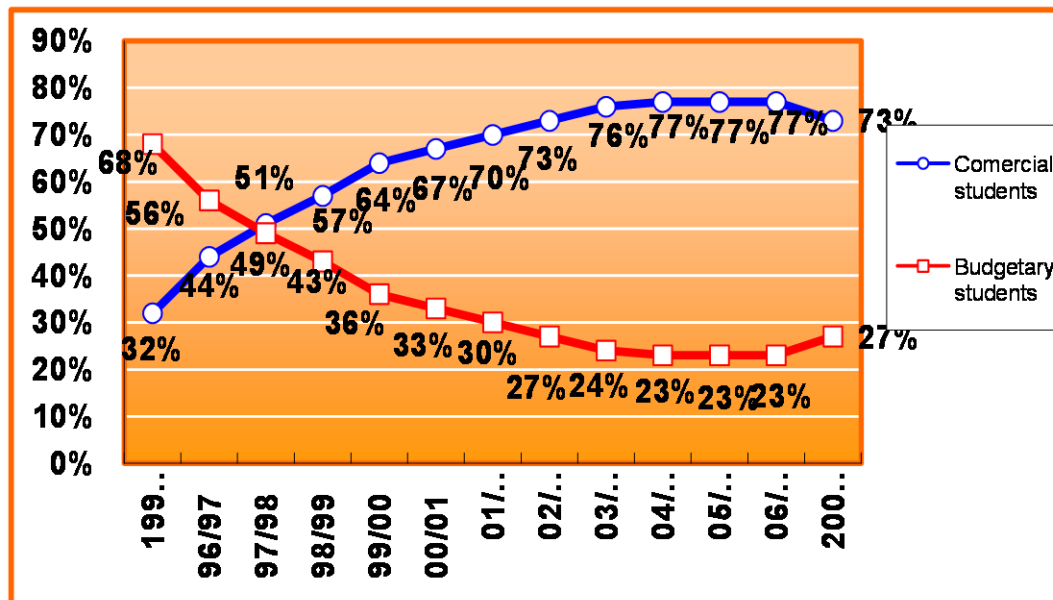


Table data is obtained from the Ministry of Education and Science, Latvia

Tuition policy at public institutions is merit-based. Some public higher educational institutions implement the “rotation” of students, depending on their performance on the exams at the end of each semester. Students in state funded slots who have lower results have to give their tuition-free place up for students who paid tuition initially but scored better on the exams at the end of the semester.¹⁶

In Latvia, the total number of students admitted and the tuition charged for their studies is determined by the university both in the private and public ones . Payment varies largely from one institution to another. Payment is determined by the number of competitors for a certain college and has no direct connection with the expenses of the program to be followed for the

¹⁵ Ministria e Arsimit dhe Shkences, Te dhena dhe Statistika pwr Arsimin e Lartw
http://izm.izm.gov.lv/upload_file/en/higher_education.pdf

¹⁶ The International Comparative Higher Education and Finance Project, University of Buffalo: Financimi dhe ndarja e kostos nw financimin e Arsmit tw Lartw, Letoni
http://gse.buffalo.edu/org/inthigheredfinance/files/Country_Profiles/Europe/Latvia.pdf

faculty. There is no strict correlation between the actual study program expenses and tuition fees. The amount of tuition is mainly determined by the number of students competing for a place in a certain study program. In most cases tuition fees in higher educational institutions in the capital city of Riga are considerably higher than those for the same program in other cities. Tuition at private universities tends to be higher than in public universities. In public universities, the tuition fees may vary approximately from 1500 USD to 37,000 USD.

Student financial support:

Student aid is provided in the form of grants and loans. Government grants are available to students who win a publicly funded spot at public higher educational institutions, however, the funds are insufficient and only about 16 percent of students receive these funds. There is also a special grant policy for doctoral students. They can apply for an additional monthly grant if they are working on a dissertation in a field identified by the Ministry of Education and Science. If a student has failed to fulfil the requirements of the agreement within five years, he/she must repay the grant.

Regarding loans in Latvia, there is a program which provides two categories of student loans that are one category (study loans) covers tuition, while the other (student loans) covers the students' daily living expenses. All students, whether admitted into public or private institutions, are eligible for both loans. In order to receive a loan a student, they must have a successful academic track record and they must study in a state accredited full time or part time study program. Since 2001, the state has begun to implement a policy which guarantees student loans in commercial banks. Student loans are available only to full time students, while study loans are available to both full time and part time students. A study loan in the amount that does not exceed the tuition fee a student has to pay can be obtained from a state guaranteed loan program for consecutive acquisition of no more than one Bachelor, Master, and Doctoral degree or higher professional education. The length of study may not exceed the time designated for study in a respective program.

There is a 5 percent annual interest rate applied to both types of student loans in Latvia. The government subsidizes the difference between the interest rate charged by the commercial bank servicing the student loan program and the interest rate paid by the student. The interest rate for a

study loan does not accumulate during the study period and there is a yearlong grace period after which the interest starts to compound. Interest for a *student loan* starts to compound as soon as a student receives a loan. If a student drops out of school he or she has to repay the amount borrowed with an interest rate set by the bank. The state does not subsidize the interest in this case.

To receive a loan a student must have a co-signatory or a guarantee in the absence of a guarantor must pledge real estate or securities himself or herself. In all of these cases, the government stands as a 90% secondary guarantor in the event that the co-signatory or other primary guarantee provision is insufficient. Orphans receive the loan without additional security, fully guaranteed by the government.

A student loan may be forgiven if the borrowers become employed in a public sector, relevant to their academic or professional degree, that meets the governments and local municipality's manpower needs. The government approves the list of these occupations. For each year worked full time in a respective occupation the borrower gets 10 percent of his/her loan forgiven. Those who work part time get 5 percent of their loans forgiven annually. A student loan debt may be also reduced if children are born in a family where spouses have student loans. In this case 30 percent of the outstanding loan debt is forgiven for every child borne. If both parents have student loans, they must decide who will use the opportunity to have the loan reduced. The same conditions apply to adoption cases. A student loan may also be forgiven for those students who, while studying or after graduation, have acquired a lieutenant's rank at the National Academy of Defense and signed an employment agreement with the professional military service for at least five years. If a graduate, after obtaining a lieutenant's rank, moves into the military reserve, 10 percent of his or her student loan debt is forgiven annually. The student loan is fully forgiven if a borrower becomes disabled or dies.